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TO RUEHC/SECSTATE WASHDC 2067  
INFO RUEHBJ/AMEMBASSY BEIJING 6093  
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RUEHKO/AMEMBASSY TOKYO 2969  
RUEHUL/AMEMBASSY SEOUL 3291  
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RUEHML/AMEMBASSY MANILA 1704  
RUEHPF/AMEMBASSY PHNOM PENH 0089  
RUEHGP/AMEMBASSY SINGAPORE 0407  
RUEHVN/AMEMBASSY VIENTIANE 0060  
RUEHGO/AMEMBASSY RANGOON 0033  
RUEHKL/AMEMBASSY KUALA LUMPUR 0264  
RUEHHI/AMEMBASSY HANOI 0121  
RUEHBY/AMEMBASSY CANBERRA 0264  
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STATE FOR EAP/CM, DRL AND EEB/TPP/ABT/ATP

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SUBJECT: IN MONGOLIA, THOUSANDS DEMONSTRATE AGAINST HIGH FOOD PRICES

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¶1. (SBU) SUMMARY: Sharply rising prices for staple foods prompted approximately 4,000 demonstrators to take to the streets April 18 in the heart of Mongolia's capital, Ulaanbaatar. Led by the National Confederation of Mongolian Trade Unions, protestors demanded 40-50% price cuts for bread and flour and threatened a nationwide strike if the government failed to act. At a meeting of the government's price stabilization program council on the April 21, producers and protesters argued over the best policy for reducing prices. No decisions were made, although the Prime Minister promised to investigate the matter further. END SUMMARY

¶2. (SBU) Witnesses estimated that 4,000 demonstrators converged on central Ulaanbaatar's Sukhbaatar Square on April 18 with banners that read, "Stop Inflated Food Prices!" and "Increase Working Class Salaries!" (Note: Wire agencies incorrectly reported that over 20,000 people took part in the demonstration. End Note.) The protest followed a series of price hikes for basic food items, including rice, flour, meat and bread. Bread prices had increased 50% in the last week alone, and the price of flour has tripled over the past four months. Demonstrators also called for wage increases, an improved legal environment to ensure fairer competition, and reform of the country's social security system.

¶3. (SBU) S. Ganbaatar, President of the labor confederation, called on the government of Mongolia "to take concrete action to stop the rising consumer prices, which enrich a few companies at the expense of thousands of Mongolians." Ganbaatar insisted that the demonstration was not politically motivated, but threatened that if price hikes were not dealt with soon, "the citizens will move to the next level of action," which could include a nationwide strike.

¶4. (SBU) Later, and without resistance, Ganbaatar led a delegation of protestors into Government House, where they were eventually received by Prime Minister Bayar and Finance Minister Ulaan. The

protestors handed over a list of demands that included stabilizing flour and bread prices. Flour currently costs 1000 tugrik per kilo (US\$.85 cents), and the protestors want this price reduced to between 550 to 600 tugrik (roughly US\$.51 cents) per kilo. Bread currently sells for 800 tugrik per loaf (US\$.70 cents), and the protestors want this price sliced to 450-500 tugrik (roughly US\$.42 cents).

15. (SBU) Bayar then invited representatives of the confederation and the Mongolian Employers Federation (MONEF) to Monday's meeting of the "Council on Coordinating Implementation of the Price Stabilization Program." (Note: This is an advisory group that deals with inflation. It was established earlier this year and includes representatives from Government and the private sector. End Note.) At the council meeting on April 21, emotions flared and Ganbaatar accused bakers of gouging customers through 25 to 30% profit margins. He suggested that producers should accept a 3 to 4% margin of profit, to bring prices down to 450 tugrik per loaf. Bakers and millers rejected this proposal out of hand, saying they could not operate under such conditions and would shut down. Local producers instead argued that high VAT and other taxes should be reduced or eliminated. According to press reports, little was resolved at the meeting, with PM Bayar simply agreeing to investigate the matter further.

16. (SBU) According the World Bank, Mongolians spend 41% of their income on food. Price increases have been devastating for poorer consumers, with the urban poor bearing most of the shock. Some 32% of Mongolia's population lives below the poverty line. More than two-thirds of Mongolia's 17% inflation rate in 2007 was attributed to increased food prices. Some of the protestors blame the current situation on the collapse of the Soviet-era farming system. They

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nostalgically recall that Mongolia was self-sufficient in wheat grain when Mongolia was a satellite of the Soviet Union. Harking back to those halcyon days, the Minister of Food and Agriculture rolled out a "Crop Rehabilitation Third National Mobilization" plan, to restore self-sufficiency in wheat/flour and vegetable production by 2010. But for now, Mongolia is heavily dependent on imports for most non-meat foods, with bread and cereals arriving from Russia and fruits and vegetables coming from China. This situation leaves the country vulnerable to worldwide food price increases.

COMMENT

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17. (SBU) Regarding the "grand illusion" of Mongolia's Soviet-era farms, others recall that the USSR underwrote the entire farm sector, paying for almost all inputs. The sector produced cheap bread and other staples because the Mongolians bore none of the costs. The collapse of the Soviet Union brought an abrupt end to this heavily subsidized system. The GOM, faced with a farm system it could no longer afford, privatized most state-owned collective farms, most of which collapsed because they could not economically produce wheat and other crops without subsidies. This inability to profitably produce crops continues, which necessitates expensive imports, and threatens any plan to renovate the agricultural sector.

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